

Message Text

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ACTION INR-07

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CIAE-00 EPG-02 DODE-00 EB-07 FPC-01 H-01 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-07
SP-02 SS-15 STR-04 TRSE-00 ACDA-07 FEA-01 PA-01
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INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

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AMEMBASSY BUCHAREST

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E.O. 11652: N/A

TAGS: ECON ENRG EEWT UR US

SUBJECT: PROSPECTS FOR SOVIET FUEL INDUSTRY

REFS: (A) STATE 093636, (B) STATE 090603

SUMMARY: A SOVIET OIL INDUSTRY OFFICIAL DESCRIBED THE PLAN
FOR INCREASING OIL PRODUCTION BY APPROXIMATELY 30
MILLION TONS ANNUALLY THROUGH 1980 AS BEING "HARD" TO
ACHIEVE BUT APPEARED GUARDEDLY OPTIMISTIC THAT THIS CAN
BE ACCOMPLISHED. HE ACKNOWLEDGED SERIOUS PROBLEMS IN
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EXPLORATION AND DRILLING WORK AND CONCEDED THAT WIDE-
SPREAD USE OF SECONDARY AND TERTIARY RECOVERY METHODS MUST
BE MADE IF PRODUCTION GOALS ARE TO BE MET. MINISTRY OF
OIL PRODUCTION TARGETS CITED WERE LESS THAN THOSE PUBLISHED
FOR OIL INDUSTRY BUT THE DIFFERENCE COULD BE ACCOUNTED FOR
BY GAS CONDENSATE PRODUCED BY THE MINISTRY OF GAS INDUSTRY.
SOURCE, WHO SEEMED ON SOMEWHAT UNFIRM GROUND WITH RESPECT

TO FOREIGN TRADE, SAID EXPORTS TO THE WEST SHOULD HOLD AT CURRENT LEVELS
DESPITE RISING DOMESTIC AND EAST EUROPEAN USE. END SUMMARY.

1. E/C COUNSELFOR ACCOMPANIED BY EMBOFF CALLED ON PASHA ARUSHANOV, CHIEF OF THE FOREIGN RELATIONS DEPARTMENT, MINISTRY OF OIL INDUSTRY, ON MAY 10 TO DISCUSS FUTURE PROSPECTS FOR THE SOVIET OIL INDUSTRY AND US COMMERCIAL OPPORTUNITIES IN THE LATTER (REPORTED SEPTEL). ARUSHANOV'S COMMENTS ON OIL OUTLOOK WERE AS FOLLOWS.

2. OIL EXPORTS: SOVIET OIL EXPORTS TO THE WEST, MAINLY TO FRANCE, FINLAND, ITALY, AND JAPAN INCREASED OVER THE PAST TWO YEARS AS THE USSR HAD TO PAY FOR GRAIN AND FOOD IMPORTS. DOMESTIC REQUIREMENTS ARE INCREASING, HOWEVER, AS ARE THOSE OF THE "SOCIALIST" COUNTRIES AND MEETING THESE NEEDS IS THE PRINCIPAL OBJECTIVE OF THE SOVIET OIL INDUSTRY. (ARUSHANOV STRONGLY IMPLIED THAT OIL IS TOO VALUABLE A COMMODITY TO SELL TO FOREIGNERS, BUT WE DO NOT TAKE THIS FOR THE OFFICIAL SOVIET VIEW.) IN RESPONSE TO COUNSELFOR'S QUERY WHETHER THE USSR COULD CONTINUE TO SELL 50 MILLION TONS ANNUALLY TO THE WEST IN THE FACE OF THESE DEMANDS, AND IN LIGHT OF ADMITTED PROBLEMS OF PRODUCTION, ARUSHANOV CONTENDED THE TOTAL EXPORTED WAS ACTUALLY 25-30 MILLION TONS. ASKED WHEN THE SOVIET COMSUMPTION AND PRODUCTION CURVES MIGHT INTERSECT, HE SAID ONLY THAT THIS HAS NOT YET OCCURRED. ARUSHANOV ASSERTED THAT DESPITE RISING SOVIET DOMESTIC OUTPUT, DELIEVERIES TO "SOCIALIST" COUNTRIES WILL INCREASE ACCORDING TO OBLIGATIONS ENTERED INTO AND DELIVERIES LIMITED OFFICIAL USE

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TO THE WEST WILL STAY AT THE SAME LEVEL OR INCREASE ONLY SLIGHTLY. THE SOVIET PREFERENCE, HOWEVER, IS TO SELL MORE REFINED PRODUCTS, AS COMPARED TO CRUDE, TO THE WEST.

3. PRODUCTION TARGETS: ASKED WHETHER THE USSR WOULD MEET THE 1977 TARGET OF 550 MILLION TONS AND THE 1980 GOAL OF 620-640 MILLION TONS, ARUSHANOV ANSWERED AFFIRMATIVELY, BUT ALSO SAID THE TARGETS WERE "HARD". HE SAID THE OBJECTIVE IS TO INCREASE PRODUCTION ABOUT 30 MILLION TONS ANNUALLY, OR 130-140 MILLION TONS BETWEEN 1976-80. HE SAID THE 1977 GOAL IN HIS MINISTRY WAS 544 MILLION TONS AND THAT IN 1976 PRODUCTION WAS 512 MILLION TONS (509 MILLION TONS OF CRUDE OIL AND 3 MILLION OF GAS CONDENSATE). WHEN COUNSELOR POINTED OUT DISCREPANCIES WITH PUBLISHED 1976 PRODUCTION FIGURE OF 520 MILLION TONS AND 1977 GOAL OF 550 MILLION TONS, ARUSHANOV REPLIED THE DIFFERENCE COULD BE IN GAS CON- SESATE PRODUCED BY THE MINISTRY OF GAS.

4. PRESENT PRODUCTION AND EXPLORATION: AFTER COUNSELFOR

MENTIONED REPORTS OF LAGGING GEOLOGICAL EXPLORATION AND
DISCOVERY AND COST INEFFECTIVE METHODS OF FORCING OIL
PRODUCTION FROM CURRENT WELLS, ASUSHANOV, FAR FROM DENYING
THESE PROBLEMS, AGREED THAT THEY EXIST. HE SAID THE USSR
HAS TO MEET TWO REQUIREMENTS TO ENSURE CONTINUED OUTPUT
GROWTH: INCREASE GEOLOGICAL EXPLORATION AND IMPROVE
USEOF "STIMULATION ON FORMATIONS," 8.E. SECONDARY AND
TERTIARY METHODS. NOTING THAT LARGE FIELDS SUCH AS SAMOTLOR
IN WEST SIBERIA CANNOT BE FOUND EVERY FIVE YEARS,
ARUSHANOV SAID EXPLORATION OF NEW AREAS, WHICH IS NOT EASY.
MUST BE INTENSIFIED. NEWER PRODUCTION AREAS SUCH AS WEST
SIBERIA AND THE MANGYSHLAK PENINSULAT MUST PROVIDE FOR
OVERALL GROWTH WHILE COVERING DECLINING OUTPUT IN BAKU,
AZERBAIDZHAN, AND THE URALS-VOLGA REGION. THE TATARIA
REGION HAS STABILIZED FOR SOME 12 YEARS AT 100 MILLION TONS
ANNUALLY, BUT ONLY BY USING WATER INJECTION METHODS.

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5. THE USSR, ACCORDING TO ARUSHANOV, IS JUST NOW IN THE STAGE OF PREPARATION FOR EXPLORING AND DEVELOPING THE CONTINENTAL SHELF AND WOULD LIKE TO DEVELOP COOPERATION WITH FOREIGN FIRMS. HE REFERRED TO AGREEMENTS WITH THE JAPANESE AND GULF OIL IN SAKHALIN EXPLORATION AND NEGOTIATIONS WITH BP ON DEVELOPMENT OF THE BARENTS SEA. ON THE LATTER, THE COMPLEX ISSUE OF COMPENSATION HAS NOT BEEN RESOLVED AND A BP DELEGATION IS EXPECTED TO VISIT SOON. THE MINISTRY OF OIL HAS DECIDED TO BUY EQUIPMENT FOR EXPLORATION OF DEEP WATER CASPIAN STRUCTURES. ONE DRILLING PLATFORM HAS BEEN PUR-
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CHASED FROM ARMCO STEEL AND DISCUSSIONS ARE PROCEEDING WITH BROWN AND ROOT AND MCDERMOTT ON BUILDING A FACILITY AT BAKU TO PRODUCE PLATFORMS FOR DEEP DRILLING. NO OIL SO FAR HAS BEEN FOUND IN THE KARA SEA AND KAMCHATKA REGION BUT HERE THE MINISTRY OF GEOLOGY HAS ONLY DONE INITIAL EXPLORATORY WORK AND NOT DRILLING. (HE APPEARED PARTICULARLY DOUBTFUL THAT CONDITIONS IN KARA SEA EVER WOULD PERMIT SUCCESSFUL EXPLORATION EVEN IF OIL WERE TO BE FOUND.) ARUSHANOV NOTED THAT MORE WORK SHOULD BE DONE IN EAST SIBERIA AND IN TYUMEN. GAS MAINLY HAS BEEN FOUND IN THE LATTER RECENTLY BUT OIL IS STILL BEING SOUGHT.

6. ARUSHANOV SAID IT WOULD BE 1983 OR 1984 BEFORE THE ENVISAGED BAKU PLANT FOR PLATFORMS COULD HELP INCREASE CASPIAN OUTPUT. HE COULD NOT SAY WHEN PRODUCTION COULD BEGIN IN THE BARENTS SEA. ONE OR TWO HOLES MUST BE DRILLED THIS YEAR OFF SAKHALIN BUT A TYPHOON EARLIER THIS YEAR PREVENTED TRANSPORT OF A DRILLING RIG TO THE AREA. IF THE SAKHALIN EXPLORATION IS SUCCESSFUL, PRODUCTION WOULD BEGIN BY 1983. COUNSELOR OBSERVED THIS SCENARIO PLACES A HEAVY BURDEN TILL 1983-84 ON THE SAMOTLOR FIELD AND ASKED WHEN THIS FIELD WOULD PEAK. ARUSHANOV SAID THIS WOULD OCCUR IN 1981-82; MAINTENANCE OF THIS OUTPUT WILL DEPEND ON THE USE OF GAS LIFT EQUIPMENT AND OTHER METHODS OF STIMULATION, SUCH AS SUBMERSIBLE PUMPS. OTHER "TECHNICAL AND EQUIPMENT" PROBLEMS MUST ALSO BE SOLVED.

7. ASKED ABOUT POSSIBLE PLANS FOR ADOPTION OF CONSERVATION MEASURES AIMED AT LIMITING GROWTH OF DOMESTIC USE OF OIL, ARUSHANOV KNEW OF NO SUCH PLANS AND DID NOT SHOW ANY SENSE THAT THEY MIGHT BE NECESSARY.

8. COMMENT: THE MOST INTERESTING PART OF THIS CONSERVATION WAS ARUSHANOV'S ACKNOWLEDGEMENT OF PROBLEMS BUT SIMULTANEOUS DISINCLINATION TO CONCLUDE THAT SOVIET OIL EXPORTS TO THE WEST WOULD SOON BE REDUCED OR EVEN ELIMINATED AS A CONSEQUENCE. HE
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WAS, HOWEVER, GUARDED IN HIS STATEMENTS ON MEETING PLANNED INCREASES IN OIL OUTPUT. WHILE CONCEDED THESE DIFFERENCES HE DENIED THAT THERE HAD BEEN ANY DOWNWARD REVISION OF EXISTING GOALS. IN THIS REGARD, WE WOULD APPRECIATE CONFIRMATION FROM WASHINGTON AGENCIES THAT THE DIFFERENCE BETWEEN THE PUBLISHED TARGETS AND THOSE CITED BY ARUSHANOV COULD BE ACCOUNTED FOR BY DELIVERIES OF GAS CONDENSATE BY THE MINISTRY OF GAS. JUDGING FROM HIS STATISTICS AND HIS REFERENCE TO DESIRED SALE OF PRODUCTS INSTEAD OF CRUDE OIL, ARUSHANOV DID NOT SEEM WELL INFORMED ON THE QUESTION OF EXPORTS (UNLESS THEY ARE CONSIDERABLY LOWER THAN WE HAVE BEEN LED TO BELIEVE.) ALSO WE NOTE ARUSHANOV'S PREDICTION THAT SAMOTLOR WILL PEAK IN 1981-82 IS AT VARIANCE WITH US ESTIMATES HIS FIELD WILL PEAK IN THE NEXT YEAR OR SO.
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